

**TOWNSHIP OF LEONI**

**Jackson County, Michigan**

**FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2004**

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Leoni Township		County Jackson
Audit Date 6/30/04	Opinion Date 7/29/04	Date Accountant Report Submitted to State: 9/17/04		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

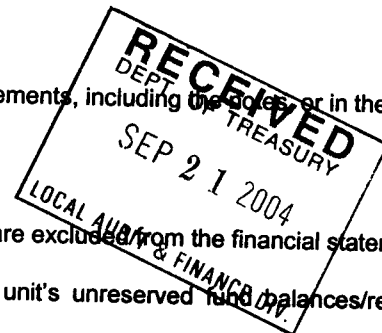
We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).



We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature <i>Rehmann Robson</i>			

# TOWNSHIP OF LEONI

## TABLE OF CONTENTS

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	<u>PAGE</u>
Independent Auditors' Report .....	1-2
Management's Discussion and Analysis .....	3-13
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	14
Statement of Activities .....	15-16
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	17
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets .....	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
General Fund .....	21
Fire Special Revenue Fund .....	22
Statement of Net Assets – Proprietary Funds .....	23
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds .....	24
Statement of Cash Flows – Proprietary Funds .....	25-26
Statement of Net Assets – Agency Fund .....	27
Notes to the Financial Statements .....	28-45
Component Unit Financial Statements:	
Statement of Net Assets and Governmental Fund Balance Sheet – Downtown Development Authority Component Unit .....	46
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Downtown Development Authority Component Unit .....	47

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**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**INDEPENDENT AUDITORS' REPORT**

July 29, 2004

The Supervisor and Board of Trustees  
Township of Leoni  
Jackson County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **TOWNSHIP OF LEONI, MICHIGAN**, as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Leoni, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note IV.E., the Township adopted the provisions of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 and GASB Interpretation 6 as of and for the year ended June 30, 2004. This results in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis on pages 3-13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Leoni's basic financial statements. The component unit financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The component unit financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

*Rehmann Johnson*

MANAGEMENT'S DISCUSSION and ANALYSIS

## Management's Discussion and Analysis

As management of the *Township of Leoni, Michigan*, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended June 30, 2004.

### Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$18,677,864 (*net assets*). Of this amount, \$4,929,126 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$1,466,609.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$703,528, a decrease of \$424,934 in comparison with the prior year. Approximately 80 percent of this total amount, or \$561,357, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$561,357 or 39 percent of total general fund expenditures.
- The Township's total bonded debt decreased by \$530,000 during the current fiscal year; no new debt was issued.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public safety and public works. The business-type activities of the Township include sanitary sewer and water distribution operations.

The government-wide financial statements include not only the Township itself (known as the *primary government*), but also a legally separate authority – the Downtown Development Authority – for which the Township is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 14-16 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.



The Township maintains 3 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, fire special revenue, and cemetery permanent trust funds, each of which are considered to be major funds.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 17-22 of this report.

**Proprietary funds.** The Township maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses enterprise funds to account for its sanitary sewer and water distribution operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Township's various functions. The Township uses an internal service fund to account for its vehicles and related equipment. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water operations, both of which are considered to be major funds of the Township.

The basic proprietary fund financial statements can be found on pages 23-26 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 27 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-45 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Leoni Township, assets exceeded liabilities by \$18,677,864 at the close of the most recent fiscal year.

By far the largest portion of the Township's net assets (73.5 percent) reflects its investment in capital assets (e.g., land, buildings, systems, vehicles and equipment), less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

[Since this is the first year for which the Township adopted the provisions of GASB Statement No. 34, comparative data is not required. In future years, such information will be presented for the current and preceding year.]

### Township of Leoni's Net Assets

	Governmental activities	Business-type activities	Total
Current and other assets	\$ 66,071	\$ 5,286,099	\$ 5,352,170
Capital assets	1,663,783	14,742,914	16,406,697
Total assets	1,729,854	20,029,013	21,758,867
Long-term liabilities outstanding	253,617	2,675,000	2,928,617
Other liabilities	33,027	119,359	152,386
Total liabilities	286,644	2,794,359	3,081,003
Net assets:			
Invested in capital assets, net of related debt	1,663,783	12,067,914	13,731,697
Restricted	17,041	-	17,041
Unrestricted	(237,614)	5,166,740	4,929,126
Total net assets	\$ 1,443,210	\$ 17,234,654	\$ 18,677,864

An additional portion of the Township's net assets (\$17,041 or 0.1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (26.4 percent or \$4,929,126) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities, except for deficit of \$237,614 in the governmental activities unrestricted net assets.

The government's net assets increased by \$1,466,609 during the current fiscal year. This increase is primarily attributable to capital contributions from new customers of nearly \$1.3 million in the business-type activities.

### Township of Leoni's Changes in Net Assets

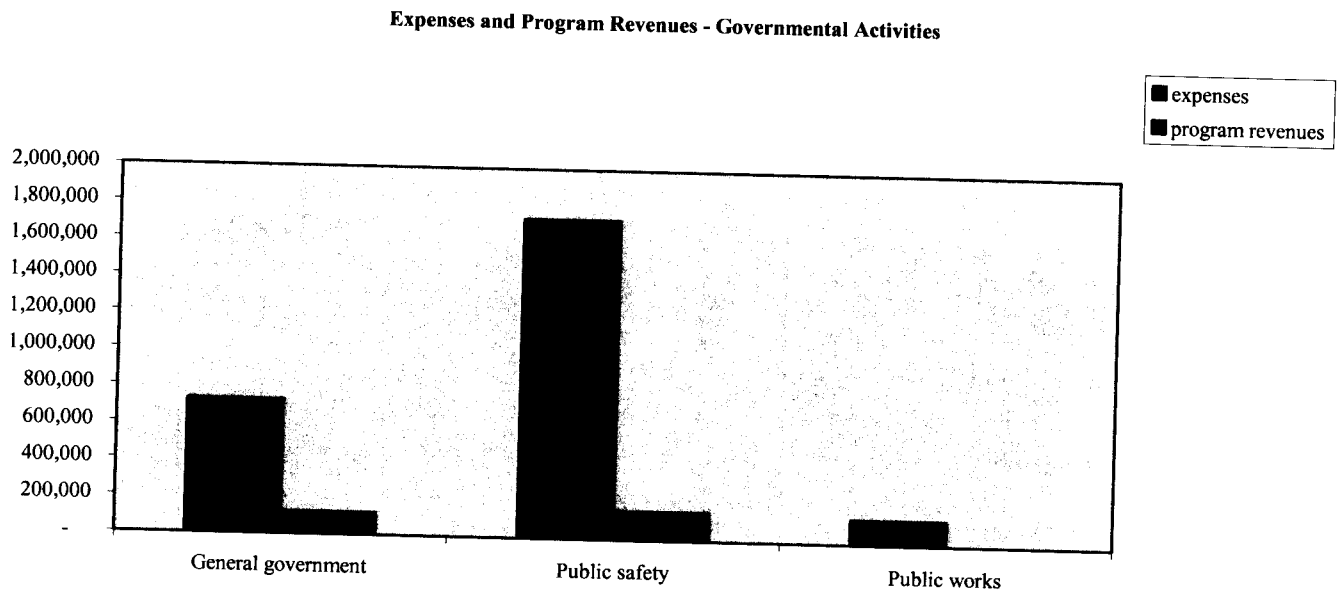
	Governmental activities	Business-type activities	Total
Revenue:			
Program revenue:			
Charges for services	\$ 276,709	\$ 1,905,660	\$ 2,182,369
Operating grants and contributions	133	-	133
Capital grants and contributions	-	1,292,707	1,292,707
General revenue:			
Property taxes	844,235	-	844,235
Grants and contributions not restricted to specific programs	1,010,632	-	1,010,632
Other	12,739	128,905	141,644
Total revenue	<u>2,144,448</u>	<u>3,327,272</u>	<u>5,471,720</u>
Expenses:			
General government	726,056	-	726,056
Public safety	1,727,010	-	1,727,010
Public works	134,863	-	134,863
Sewer	-	1,282,860	1,282,860
Water	-	134,322	134,322
Total expenses	<u>2,587,929</u>	<u>1,417,182</u>	<u>4,005,111</u>
Increase in net assets before transfers	(443,481)	1,910,090	1,466,609
Transfers	(14,000)	14,000	-
Increase (decrease) in net assets	(457,481)	1,924,090	1,466,609
Net assets - beginning of year, as restated	<u>1,900,691</u>	<u>15,310,564</u>	<u>17,211,255</u>
Net assets - end of year	<u><u>\$ 1,443,210</u></u>	<u><u>\$ 17,234,654</u></u>	<u><u>\$ 18,677,864</u></u>

**Governmental activities.** Governmental activities reduced the Township's net assets by \$457,481. Key elements of this change include:

- A continuing drain on governmental resources directly attributable to the extent by which fire service costs exceed related revenues. To date, the Township has been unsuccessful in obtaining voter approval for additional property tax millage to support the financial burden of providing fire protection to residents at current service levels.
- A decrease in state shared revenues (grants and contributions not restricted to specific programs) of approximately \$56,000. This is a direct result of the State of Michigan's fiscal challenges within the continuing sluggish economy.

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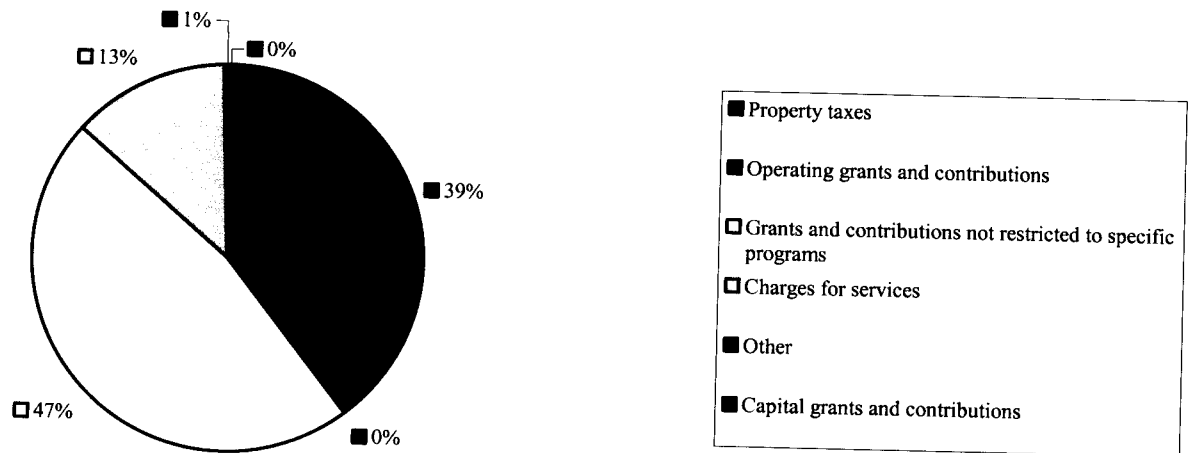
### Expenses and Program Revenues - Governmental Activities



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## Revenues by Source - Governmental Activities

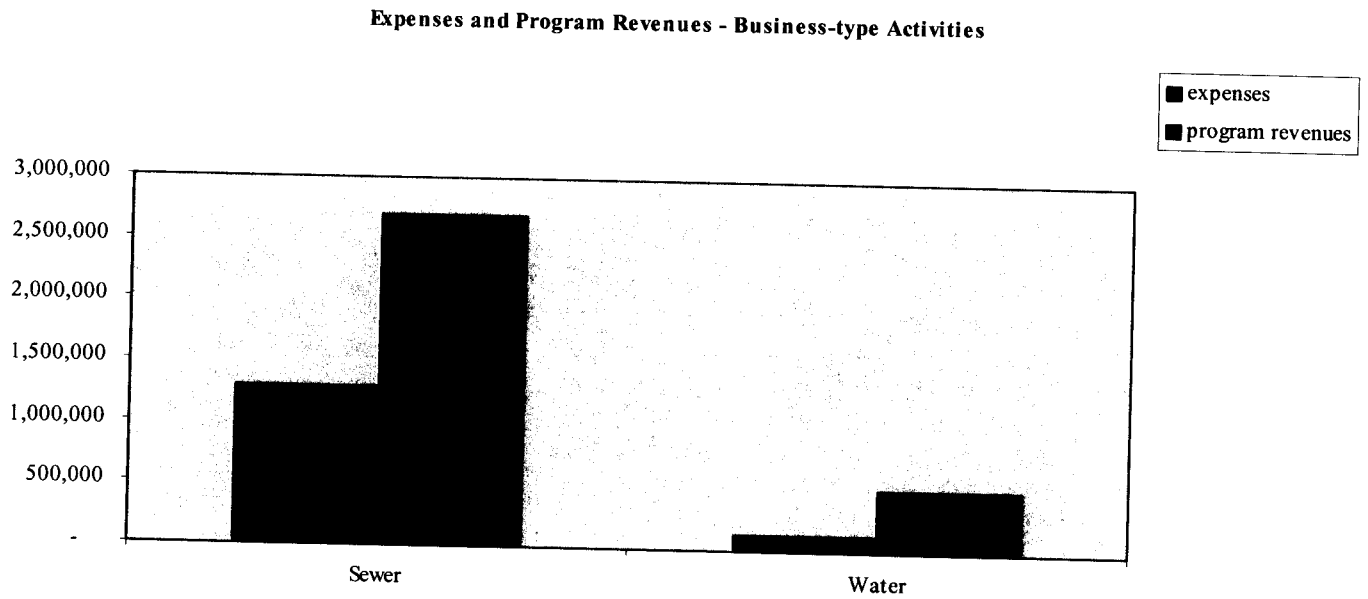
Revenues by Source - Governmental Activities



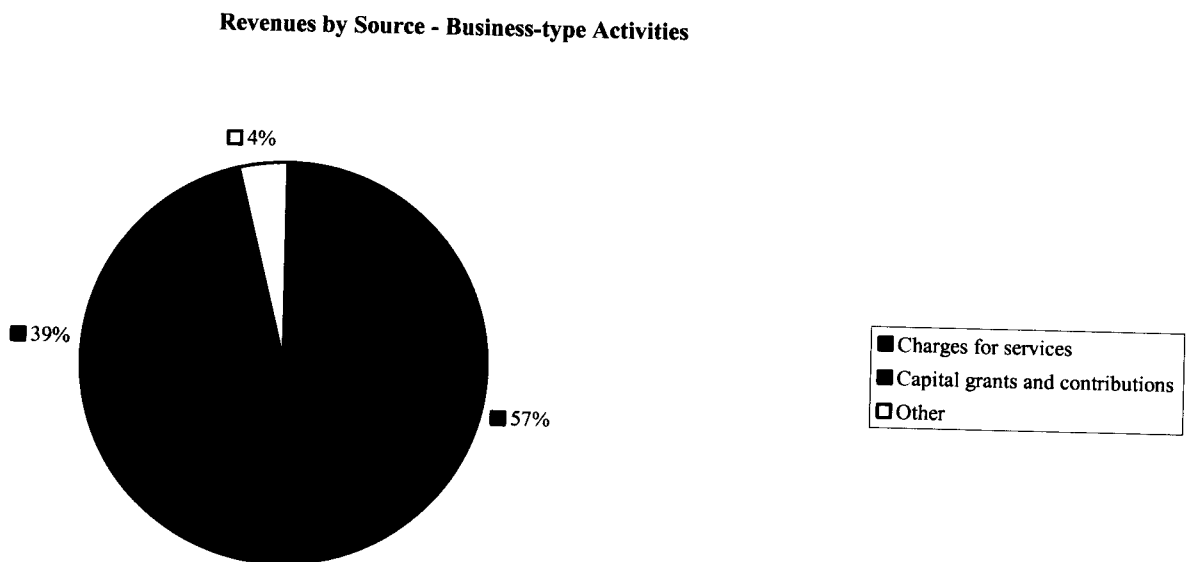
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**Business-type activities.** Business-type activities increased the Township's net assets by \$1,924,090. The key element of the increase was approximately \$1.3 of capital contributions from new customers related to expansion of sewer and water service in the Gunnison Lake district.

## Expenses and Program Revenues - Business-type Activities



## Revenues by Source - Business-type Activities



## Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Township's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$703,528, a decrease of \$424,934 in comparison with the prior year. Approximately 80 percent of this total amount (\$561,357) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed: a) for street lighting (\$125,130), and b) to generate income to pay for the perpetual care of the municipal cemetery (\$17,041).

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$561,357, while total fund balance was \$686,487. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 39 percent of total general fund expenditures.

The fund balance of the Township's general fund decreased by \$433,863 during the current fiscal year. This is primarily attributable to an accelerating trend over the last several years of expenditure growth exceeding revenue growth, particularly with transfers from the general fund to the fire fund.

The fire fund has no fund balance as its excess of expenditures over revenues is financed through a transfer from the general fund.

The cemetery fund has a total fund balance of \$17,041, which increased by \$8,929 during the year.

*Proprietary funds.* The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water funds at the end of the year amounted to \$3,956,569 and \$1,210,171, respectively. The sewer fund had a increase in net assets for the year of \$1,513,828, whereas the water fund had an increase of \$410,262. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Township's business-type activities.

## General Fund Budgetary Highlights

There were no differences between the original and final amended budgets for expenditures, except for a \$35,000 increase under general government for the assessor.

During the year, the actual reduction in fund balance was \$3,227 less than the general fund budgetary estimates for revenues, expenditures and other financing sources.

## Capital Asset and Debt Administration

**Capital assets.** The Township's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounted to \$16,406,697 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, and vehicles. The total decrease in the Township's investment in capital assets for the current fiscal year was 1.6 percent (a 7.8 percent decrease for governmental activities and a 0.8 percent decrease for business-type activities).

Major capital asset events during the current fiscal year included the completion of certain sewer and water line expansion projects and the replacement of several pieces of equipment.

### Township of Leoni's Capital Assets (net of depreciation)

	Governmental activities	Business-type activities	Total
Land	\$ 71,595	\$ 458,604	\$ 530,199
Land improvements	104,042	-	104,042
Buildings and systems	488,134	14,005,151	14,493,285
Machinery and equipment	329,528	279,159	608,687
Vehicles	670,484	-	670,484
<b>Total</b>	<b>\$ 1,663,783</b>	<b>\$ 14,742,914</b>	<b>\$ 16,406,697</b>

Additional information on the Township's capital assets can be found in Note III.C. on pages 37-38 of this report.

**Long-term debt.** At the end of the current fiscal year, the Township had total bonded debt outstanding of \$2,675,000. This is comprised of bonds secured solely by specified revenue sources (i.e., revenue bonds).



## Township of Leoni's Outstanding Debt General Obligation and Revenue Bonds

	Governmental activities	Business-type activities	Total
Revenue bonds	\$ -	\$ 2,675,000	\$ 2,675,000

The Township's bonded debt decreased by \$530,000 (16.5 percent) during the current fiscal year, with no new debt issuances.

Additional information on the Township's long-term debt can be found in note III.F on pages 39-40 of this report.

### Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Township's budget for the 2004-05 fiscal year:

Several considerations were made to reduce the budget costs in lieu of recent State revenue sharing cuts and rising insurance costs. Wage freeze concessions were achieved with the fire union bargaining unit, township employees and elected officials. Optional health insurance plans were presented to and accepted by the fire union bargaining unit, saving the Township approximately \$17,000 in health care costs for the 04-05 budget year. The retired fire and police chiefs were replaced with internally promoted operational employees, who were promoted to "working" command officer positions. Overall, each department was committed to achieving a 5-15% budget reduction for all remaining expenditure line items for the 2004-05 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased by \$398,168 to \$561,357. The Township has appropriated \$477,082 of general fund unreserved fund balance for spending in the 2004-05 fiscal year budget.

### Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Township Supervisor, P.O. Box 375, Michigan Center, Michigan 49254.

## BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**TOWNSHIP OF LEONI**  
**Statement of Net Assets**  
**June 30, 2004**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 97,258	\$ 1,661,320	\$ 1,758,578	\$ 689,536
Investments	-	1,222,128	1,222,128	254,258
Receivables	165,889	2,133,397	2,299,286	97,194
Internal balances	(197,076)	197,076	-	-
Prepaid items and other assets	-	72,178	72,178	-
Capital assets not being depreciated	71,595	458,604	530,199	-
Capital assets being depreciated, net	1,592,188	14,284,310	15,876,498	-
<b>Total assets</b>	<u>1,729,854</u>	<u>20,029,013</u>	<u>21,758,867</u>	<u>1,040,988</u>
<b>Liabilities</b>				
Accounts payable and accrued expenses	33,027	114,234	147,261	322,094
Accrued interest payable	-	5,125	5,125	5,966
Noncurrent liabilities:				
Due within one year	-	85,000	85,000	40,000
Due in more than one year	253,617	2,590,000	2,843,617	375,000
<b>Total liabilities</b>	<u>286,644</u>	<u>2,794,359</u>	<u>3,081,003</u>	<u>743,060</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	1,663,783	12,067,914	13,731,697	-
Restricted for perpetual care				
Expendable	11,032	-	11,032	-
Nonexpendable	6,009	-	6,009	-
Unrestricted (deficit)	(237,614)	5,166,740	4,929,126	297,928
<b>Total net assets</b>	<u>\$ 1,443,210</u>	<u>\$ 17,234,654</u>	<u>\$ 18,677,864</u>	<u>\$ 297,928</u>

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF LEONI**  
**Statement of Activities**  
**For the Year Ended June 30, 2004**

<u>Functions / Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary government</b>					
Governmental activities:					
General government	\$ 726,056	\$ 120,654	\$ 133	\$ -	\$ (605,269)
Public safety	1,727,010	156,055	-	-	(1,570,955)
Public works	134,863	-	-	-	(134,863)
Total governmental activities	<u>2,587,929</u>	<u>276,709</u>	<u>133</u>	<u>-</u>	<u>(2,311,087)</u>
Business-type activities:					
Wastewater	1,282,860	1,743,507	-	950,063	1,410,710
Water	134,322	162,153	-	342,644	370,475
Total business-type activities	<u>1,417,182</u>	<u>1,905,660</u>	<u>-</u>	<u>1,292,707</u>	<u>1,781,185</u>
Total primary government	<u>\$ 4,005,111</u>	<u>\$ 2,182,369</u>	<u>\$ 133</u>	<u>\$ 1,292,707</u>	<u>\$ (529,902)</u>
<b>Component unit</b>					
Community development	<u>\$ 241,775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (241,775)</u>

continued...

**TOWNSHIP OF LEONI**  
**Statement of Activities (Concluded)**  
**For the Year Ended June 30, 2004**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (2,311,087)	\$ 1,781,185	\$ (529,902)	\$ (241,775)
General revenues:				
Property taxes	844,235	-	844,235	332,902
Grants and contributions not restricted to specific programs	1,010,632	-	1,010,632	-
Unrestricted investment earnings	12,264	128,905	141,169	16,075
Gain on sale of capital assets	475	-	475	-
Transfers - internal activities	(14,000)	14,000	-	-
Total general revenues, contributions and transfers	1,853,606	142,905	1,996,511	348,977
Change in net assets	(457,481)	1,924,090	1,466,609	107,202
Net assets, beginning of year, as restated	1,900,691	15,310,564	17,211,255	190,726
Net assets, end of year	\$ 1,443,210	\$ 17,234,654	\$ 18,677,864	\$ 297,928

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**TOWNSHIP OF LEONI****Balance Sheet  
Governmental Funds  
June 30, 2004**

	<u>General</u>	<u>Fire</u>	<u>Cemetery</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 73,474	\$ -	\$ 15,684	\$ 89,158
Due from other governments	165,889	-	-	165,889
Due from other funds	604,616	-	3,826	608,442
<b><u>TOTAL ASSETS</u></b>	<u>\$ 843,979</u>	<u>\$ -</u>	<u>\$ 19,510</u>	<u>\$ 863,489</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 22,505	\$ -	\$ 361	\$ 22,866
Due to other funds	124,826	-	2,108	126,934
Due to component unit	10,161	-	-	10,161
Total liabilities	157,492	-	2,469	159,961
<b>Fund balances</b>				
Reserved for:				
Street lighting	125,130	-	-	125,130
Perpetual care	-	-	17,041	17,041
Unreserved:				
Designated for subsequent year	477,082	-	-	477,082
Undesignated	84,275	-	-	84,275
Total fund balances	686,487	-	17,041	703,528
<b><u>TOTAL LIABILITIES AND FUND EQUITY</u></b>	<u>\$ 843,979</u>	<u>\$ -</u>	<u>\$ 19,510</u>	<u>\$ 863,489</u>

The accompanying notes are an integral part of these financial statements.



**TOWNSHIP OF LEONI**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2004**

Fund balances - total governmental funds	\$ 703,528
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets	1,679,189
Deduct - accumulated depreciation	(685,890)
Certain liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences	<u>(253,617)</u>
Net assets of governmental activities	<u><u>\$ 1,443,210</u></u>

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF LEONI**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2004**

	<u>General</u>	<u>Fire</u>	<u>Cemetery</u>	<u>Total</u>
<b>Revenues</b>				
Taxes and special assessments	\$ 477,293	\$ 366,942	\$ -	\$ 844,235
Licenses and permits	163,059	-	-	163,059
Intergovernmental	1,010,632	-	-	1,010,632
Charges for services	32,703	14,051	14,555	61,309
Fines and forfeits	33,773	-	-	33,773
Other revenues	30,509	323	133	30,965
	<u>1,747,969</u>	<u>381,316</u>	<u>14,688</u>	<u>2,143,973</u>
Total revenues				
<b>Expenditures</b>				
Legislative	35,388	-	-	35,388
General government	672,857	-	5,759	678,616
Public safety	606,910	1,099,605	-	1,706,515
Public works	134,863	-	-	134,863
	<u>1,450,018</u>	<u>1,099,605</u>	<u>5,759</u>	<u>2,555,382</u>
Total expenditures				
Revenues over (under) expenditures	<u>297,951</u>	<u>(718,289)</u>	<u>8,929</u>	<u>(411,409)</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	718,289	-	718,289
Transfers out	(732,289)	-	-	(732,289)
Proceeds from sale of capital assets	475	-	-	475
	<u>(731,814)</u>	<u>718,289</u>	<u>-</u>	<u>(13,525)</u>
Total other financing sources (uses)				
Net changes in fund balances	<u>(433,863)</u>	<u>-</u>	<u>8,929</u>	<u>(424,934)</u>
Fund balances, beginning of year, as restated	<u>1,120,350</u>	<u>-</u>	<u>8,112</u>	<u>1,128,462</u>
<b>Fund balances, end of year</b>	<u>\$ 686,487</u>	<u>\$ -</u>	<u>\$ 17,041</u>	<u>\$ 703,528</u>

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF LEONI**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2004**

Net change in fund balances - total governmental funds \$ (424,934)

Amounts reported for *governmental activities* in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their estimated  
useful lives and reported as depreciation expense.

Add - capital outlay	13,238
Deduct - depreciation expense	(56,708)

Some expenses reported in the statement of activities do not require the use of current  
financial resources and therefore are not reported as expenditures in the funds.

Add - net decrease in the accrual for compensated absences	<u>10,923</u>
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Change in net assets of governmental activities	<u><u>\$ (457,481)</u></u>
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The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF LEONI**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2004**

	Budget			Actual
	Original	Final	Actual	Over (under) Final Budget
<b>Revenues</b>				
Taxes and special assessments	\$ 427,000	\$ 427,000	\$ 477,293	\$ 50,293
Licenses and permits	138,750	138,750	163,059	24,309
Intergovernmental	1,062,706	1,022,706	1,010,632	(12,074)
Charges for services	33,000	33,000	32,703	(297)
Fines and forfeits	51,000	51,000	33,773	(17,227)
Other revenues	31,000	31,000	30,509	(491)
Total revenues	1,743,456	1,703,456	1,747,969	44,513
<b>Expenditures</b>				
Legislative - Township Board	40,678	40,678	35,388	(5,290)
General government:				
Township supervisor	85,744	85,744	89,401	3,657
Assessor	240,082	275,082	262,387	(12,695)
Township clerk - elections	2,000	2,000	3,034	1,034
Board of review	2,200	2,200	2,325	125
Township clerk	125,365	125,365	133,103	7,738
Township treasurer	117,783	117,783	124,228	6,445
Township hall and grounds	38,227	38,227	45,465	7,238
Parks and recreation	6,024	6,024	12,914	6,890
Total general government	617,425	652,425	672,857	20,432
Public safety:				
Police	470,156	470,156	449,779	(20,377)
Inspection	136,332	136,332	146,805	10,473
Zoning and planning	10,000	10,000	10,326	326
Total public safety	616,488	616,488	606,910	(9,578)
Public works:				
Street lighting	75,000	75,000	84,127	9,127
Highways and streets	60,000	60,000	50,736	(9,264)
Total public works	135,000	135,000	134,863	(137)
Total expenditures	1,409,591	1,444,591	1,450,018	5,427
Revenues over expenditures	333,865	258,865	297,951	39,086
<b>Other financing sources (uses)</b>				
Transfer to Fire Fund	(679,871)	(679,871)	(718,289)	(38,418)
Transfer to Water Fund	(14,000)	(14,000)	(14,000)	-
Proceeds from sale of capital assets	-	-	475	475
Total other financing uses	(693,871)	(693,871)	(731,814)	(37,943)
Net changes in fund balance	(360,006)	(435,006)	(433,863)	1,143
Fund balance, beginning of year, as restated	1,120,350	1,120,350	1,120,350	-
Fund balance, end of year	\$ 760,344	\$ 685,344	\$ 686,487	\$ 1,143

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF LEONI**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Fire Special Revenue Fund**  
**For the Year Ended June 30, 2004**

	<b>Budget</b>			<b>Actual</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Over (under) Final Budget</b>
<b>Revenues</b>				
Taxes and special assessments	\$ 357,525	\$ 357,525	\$ 366,942	\$ 9,417
Charges for services	12,000	12,000	14,051	2,051
Other revenues	-	-	323	323
Total revenues	369,525	369,525	381,316	11,791
<b>Expenditures</b>				
Public safety	1,049,396	1,049,396	1,099,605	50,209
Revenues under expenditures	(679,871)	(679,871)	(718,289)	(38,418)
<b>Other financing sources</b>				
Transfer from General Fund	679,871	679,871	718,289	38,418
Net changes in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

# TOWNSHIP OF LEONI

## Statement of Net Assets

### Proprietary Funds

June 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer	Water	Total	Internal Service Fund
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 1,090,631	\$ 570,689	\$ 1,661,320	\$ 8,100
Investments	1,222,128	-	1,222,128	-
Receivables:				
Usage fees	170,003	13,003	183,006	-
Assessments, current	123,382	50,084	173,466	-
Due from other funds	55,075	160,991	216,066	2,108
Due from component unit	-	153,824	153,824	-
Inventories	50,003	-	50,003	-
Unamortized bond discount	22,175	-	22,175	-
Total current assets	<u>2,733,397</u>	<u>948,591</u>	<u>3,681,988</u>	<u>10,208</u>
Noncurrent assets:				
Assessments receivable, net of current	1,348,981	274,120	1,623,101	-
Capital assets not being depreciated	437,563	21,041	458,604	-
Capital assets being depreciated, net	12,724,006	1,560,304	14,284,310	670,484
Total noncurrent assets	<u>14,510,550</u>	<u>1,855,465</u>	<u>16,366,015</u>	<u>670,484</u>
Total assets	<u>17,243,947</u>	<u>2,804,056</u>	<u>20,048,003</u>	<u>680,692</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	26,661	540	27,201	-
Due to other funds	6,990	12,000	18,990	680,692
Due to component unit	87,033	-	87,033	-
Accrued interest payable	5,125	-	5,125	-
Revenue bonds payable, current	85,000	-	85,000	-
Total current liabilities	<u>210,809</u>	<u>12,540</u>	<u>223,349</u>	<u>680,692</u>
Noncurrent liabilities -				
Revenue bonds payable, net of current	<u>2,590,000</u>	<u>-</u>	<u>2,590,000</u>	<u>-</u>
Total liabilities	<u>2,800,809</u>	<u>12,540</u>	<u>2,813,349</u>	<u>680,692</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	10,486,569	1,581,345	12,067,914	-
Unrestricted	<u>3,956,569</u>	<u>1,210,171</u>	<u>5,166,740</u>	<u>-</u>
Total net assets	<u>\$ 14,443,138</u>	<u>\$ 2,791,516</u>	<u>\$ 17,234,654</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF LEONI**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	<b>Internal Service Fund</b>
<b>Operating revenues</b>				
Charges for services	\$ 1,629,382	\$ 162,153	\$ 1,791,535	\$ 89,480
Other revenues	114,125	-	114,125	-
Total operating revenues	1,743,507	162,153	1,905,660	89,480
<b>Operating expenses</b>				
Wastewater collection	478,513	-	478,513	-
Wastewater treatment	318,742	-	318,742	-
Septage services	40,312	-	40,312	-
Water distribution	-	83,567	83,567	-
Depreciation	325,130	50,755	375,885	97,579
Total operating expenses	1,162,697	134,322	1,297,019	97,579
Operating income (loss)	580,810	27,831	608,641	(8,099)
<b>Non-operating revenues (expenses)</b>				
Interest revenue	103,118	25,787	128,905	99
Gain on sale of capital assets	-	-	-	8,000
Interest expense and fiscal charges	(120,163)	-	(120,163)	-
Total non-operating revenues (expenses)	(17,045)	25,787	8,742	8,099
Income before contributions and transfers	563,765	53,618	617,383	-
<b>Capital contributions</b>	950,063	342,644	1,292,707	-
<b>Transfers in</b>	-	14,000	14,000	-
Change in net assets	1,513,828	410,262	1,924,090	-
Net assets, beginning of year, as restated	12,929,310	2,381,254	15,310,564	-
Net assets, end of year	\$ 14,443,138	\$ 2,791,516	\$ 17,234,654	\$ -

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF LEONI**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	<b>Internal Service Fund</b>
<b>Cash flows from operating activities</b>				
Cash received from customers	\$ 1,709,100	\$ 156,652	\$ 1,865,752	\$ -
Cash received from interfund services	-	-	-	1
Cash payments to employees	(402,637)	-	(402,637)	-
Cash payments to suppliers	(317,713)	(76,406)	(394,119)	-
Cash payments for interfund services	(1,038)	(17,963)	(19,001)	-
Net cash provided by operating activities	987,712	62,283	1,049,995	1
<b>Cash flows from non-capital financing activities</b>				
Transfers from other funds	-	14,000	14,000	-
<b>Cash flows from capital and related financing activities</b>				
Capital contributions	231,375	71,391	302,766	-
Construction/acquisition of capital assets	(552,707)	(29,935)	(582,642)	-
Proceeds from sale of capital assets	-	-	-	8,000
Principal paid on long-term debt	(530,000)	-	(530,000)	-
Interest paid on long-term debt	(173,550)	-	(173,550)	-
Net cash provided by (used in) capital and related financing activities	(1,024,882)	41,456	(983,426)	8,000
<b>Cash flows from investing activities</b>				
Proceeds of matured investments	-	100,905	100,905	-
Purchase of investments	(524,001)	-	(524,001)	-
Interest income	103,118	25,787	128,905	99
Net cash provided (used) by investing activities	(420,883)	126,692	(294,191)	99
Increase (decrease) in cash and cash equivalents	(458,053)	244,431	(213,622)	8,100
Cash and cash equivalents, beginning of year	1,548,684	326,258	1,874,942	-
Cash and cash equivalents, end of year	<u>\$ 1,090,631</u>	<u>\$ 570,689</u>	<u>\$ 1,661,320</u>	<u>\$ 8,100</u>

Continued...



**TOWNSHIP OF LEONI**  
**Statement of Cash Flows (Concluded)**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities Internal Service Fund</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Operating income (loss)	\$ 580,810	\$ 27,831	\$ 608,641	\$ (8,099)
Adjustment to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	325,130	50,755	375,885	97,579
Amortization	3,700	-	3,700	-
Changes in assets and liabilities:				
Usage fees receivable	(34,407)	(5,501)	(39,908)	-
Due from other funds	3,734	(10,928)	(7,194)	(2,108)
Inventories	82,659	-	82,659	-
Accounts payable	22,124	126	22,250	(20,475)
Due to other funds	3,962	-	3,962	(66,896)
<b>Net cash provided by operating activities</b>	<u>\$ 987,712</u>	<u>\$ 62,283</u>	<u>\$ 1,049,995</u>	<u>\$ 1</u>

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF LEONI**  
**Statement of Net Assets**  
**Agency Fund**  
**June 30, 2004**

**Assets**

Cash and cash equivalents

\$ 3,359

**Liabilities**

Due to other governments

\$ 3,359

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

The Township of Leoni, Michigan (the "government" or the "Township") is a municipal corporation governed by an elected supervisor and a six-member council. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the financial statements to emphasize that it is legally separate from the government. The government has no blended component units, which if it had, would have been combined with data of the primary government since, in substance, blended component units are considered part of a government's operations. The discretely presented component unit has a June 30 year end.

*Discretely Presented Component Unit.* The Leoni Township Downtown Development Authority (DDA) is responsible for certain projects and activities whose purpose is to revitalize and promote business district growth. The members of the DDA's governing board are appointed by the government's council. In addition, the DDA is fiscally dependent upon the government because the government's council approves the DDA's budget and any debt issuances. The DDA does not issue separate financial statements; accordingly, fund financial statements for the DDA are included herein as supplementary information.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

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Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the respective fund financial statements.

### C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

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The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *fire special revenue fund* accounts for the use of property taxes received under a specially voted millage.

The *cemetery permanent fund* accounts for money held in trust for the perpetual care of graves in the Township cemetery.

The government reports the following major proprietary funds:

The *sewer fund* accounts for the activities of the government's sewage disposal and treatment system.

The *water fund* accounts for the activities of the government's water distribution system.

Additionally, the government reports the following fund types:

The *internal service fund* accounts for fleet and equipment management to other departments of the government on a cost reimbursement basis.

The *agency funds* account for assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements, except for payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

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Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### C. Assets, liabilities and net assets/equity

#### 1. *Deposits and investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are stated at fair value.

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

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### 2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

### 3. *Inventories*

Proprietary fund inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased

### 4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), if any, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
System infrastructure	50-60
Vehicles	3-30
Equipment	5-30



# **TOWNSHIP OF LEONI, MICHIGAN**

## **Notes To Financial Statements**

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### **5. *Compensated absences***

It is the government's policy to permit eligible employees to accumulate earned but unused vacation and sick pay benefits. Vacation and sick pay are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### **6. *Long-term obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **7. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

### II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end. The government's final budget must be prepared and adopted prior to July 1st of each year.

The appropriated budget is prepared by fund, function and activity. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the activity level. Certain supplemental budgetary appropriations were made during the year.

The government does not utilize encumbrance accounting.

#### B. Excess of expenditures over appropriations

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2004, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	Amended budget	Actual	Variance
<b>General Fund</b>			
General government:			
Township supervisor	\$ 85,744	\$ 89,401	\$ (3,657)
Township clerk - elections	2,000	3,034	(1,034)
Board of review	2,200	2,325	(125)
Township clerk	125,365	133,103	(7,738)
Township treasurer	117,783	124,228	(6,445)
Township hall and grounds	38,227	45,465	(7,238)
Parks and recreation	6,024	12,914	(6,890)
Public Safety:			
Inspection	136,332	146,805	(10,473)
Zoning and planning	10,000	10,326	(326)
Public works - street lighting	75,000	84,127	(9,127)
<b>Fire Special Revenue Fund</b>			
Public safety	1,049,396	1,097,521	(48,125)

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

At year end, the carrying amount of deposits for the government and component unit were \$2,629,268 and \$911,306, respectively. The combined bank balance was \$3,622,412. Of the bank balance, \$600,825 was covered by federal depository insurance. The remaining balance of \$3,021,587 was uninsured and uncollateralized.

The government believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the government evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

At year end, the Township's investment balances were as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
<b>Investments not subject to categorization:</b>		
Mutual funds	<u>\$ 354,397</u>	<u>\$ 32,488</u>

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
<b>Statement of Net Assets:</b>		
Cash and cash equivalents	\$ 1,758,578	\$ 689,536
Investments	<u>1,222,128</u>	<u>254,258</u>
	2,980,706	943,794
<b>Statement of Fiduciary Net Assets:</b>		
Agency Funds:		
Cash and cash equivalents	<u>3,359</u>	<u>-</u>
	<u><b>\$ 2,984,065</b></u>	<u><b>\$ 943,794</b></u>
	<u>Primary Government</u>	<u>Component Unit</u>
Bank deposits (checking accounts, savings accounts and CDs)	\$ 2,629,268	\$ 911,306
Investments in mutual fund investment pools	354,397	32,488
Cash on hand	<u>400</u>	<u>-</u>
	<u><b>\$ 2,984,065</b></u>	<u><b>\$ 943,794</b></u>

### B. Receivables

Receivables in the governmental activities are 100 percent due from other governments. Business-type activities receivables are composed entirely of amounts due from customers, whether for usage or special assessments.

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

### C. Capital assets

Capital assets activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 71,595	\$ -	\$ -	\$ 71,595
Capital assets, being depreciated:				
Land improvements	167,810	-	-	167,810
Buildings	767,900	-	-	767,900
Machinery and equipment	658,646	13,238	-	671,884
Vehicles	1,583,199	-	(52,637)	1,530,562
Total capital assets being depreciated	3,177,555	13,238	(52,637)	3,138,156
Less accumulated depreciation for:				
Land improvements	(60,412)	(3,356)	-	(63,768)
Buildings	(264,330)	(15,436)	-	(279,766)
Machinery and equipment	(304,440)	(37,916)	-	(342,356)
Vehicles	(815,136)	(97,579)	52,637	(860,078)
Total accumulated depreciation	(1,444,318)	(154,287)	52,637	(1,545,968)
Total capital assets being depreciated, net	1,733,237	(141,049)	-	1,592,188
<b>Capital assets, net</b>	<b>\$ 1,804,832</b>	<b>\$ (141,049)</b>	<b>\$ -</b>	<b>\$ 1,663,783</b>
<b>Business-Type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 458,604	\$ -	\$ -	\$ 458,604
Construction in progress	587,562	-	(587,562)	-
Total capital assets not being depreciated	1,046,166	-	(587,562)	458,604
Capital assets, being depreciated:				
Buildings and systems	18,774,247	1,099,766	-	19,874,013
Machinery and equipment	576,288	182,731	(188,094)	570,925
Total capital assets being depreciated	19,350,535	1,282,497	(188,094)	20,444,938
Less accumulated depreciation for:				
Buildings and systems	(5,530,164)	(338,698)	-	(5,868,862)
Machinery and equipment	(330,380)	(37,187)	75,801	(291,766)
Total accumulated depreciation	(5,530,164)	(375,885)	75,801	(6,160,628)
Total capital assets being depreciated, net	13,820,371	906,612	(112,293)	14,284,310
<b>Capital assets, net</b>	<b>\$ 14,866,537</b>	<b>\$ 906,612</b>	<b>\$ (699,855)</b>	<b>\$ 14,742,914</b>

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

General government	\$ 25,290
Public safety	31,418
Capital assets held by the government's internal service fund are charged to the various functions based on their usage of the assets	<u>97,579</u>

**Total depreciation expense - governmental activities** **\$ 154,287**

**Business-type activities:**

Sewer	\$ 325,131
Water	<u>50,756</u>

**Total depreciation expense - business-type activities** **\$ 375,887**

**D. Payables**

Payables in the governmental activities are 69 percent vendors and 31 percent due to other governments. Business-type activities payables are 24 percent vendors and 76 percent due to other governments.

**E. Interfund receivables, payables and transfers**

The composition of interfund balances as of June 30, 2004, is as follows:

	<u>Due to:</u>					<u>Total</u>
	<u>General Fund</u>	<u>Cemetery Trust Fund</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Internal Service Fund</u>	
<b>Due from:</b>						
General fund	\$ -	\$ 3,826	\$ 5,000	\$ 116,000	\$ -	\$ 124,826
Cemetery fund	-	-	-	-	2,108	2,108
Sewer fund	-	-	-	6,990	-	6,990
Water fund	-	-	12,000	-	-	12,000
Internal service fund	604,616	-	38,075	38,001	-	680,692
	<u>\$ 604,616</u>	<u>\$ 3,826</u>	<u>\$ 55,075</u>	<u>\$ 160,991</u>	<u>\$ 2,108</u>	<u>\$ 826,616</u>

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

For the year ended June 30, 2004, interfund transfers of \$716,205 and \$14,000 were made from the General Fund to the Fire Special Revenue and Water funds, respectively. Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### F. Long-term debt

*Revenue Bonds.* The government issues bonds where it pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years for the item listed below was \$4,925,000. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Amount</u>
<b>Primary Government:</b>			
Sewage disposal system	07/01/2010	4.85 - 5.2%	\$1,650,000
Sewage disposal system	10/01/2014	2.0%	<u>1,025,000</u>
			<b><u>\$2,675,000</u></b>
<b>Component Unit - Downtown Development Authority:</b>			
Water supply system	11/01/2011	8.625%	<u>\$ 415,000</u>

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30,	<u>Business-type Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 85,000	\$ 61,837	\$ 40,000	\$ 34,069
2006	335,000	96,138	40,000	30,618
2007	335,000	81,938	45,000	26,953
2008	365,000	66,793	50,000	22,856
2009	365,000	50,831	55,000	18,328
2010-2014	1,085,000	66,175	185,000	24,366
2015	105,000	1,050	-	-
	<u>\$ 2,675,000</u>	<u>\$ 424,762</u>	<u>\$ 415,000</u>	<u>\$ 157,190</u>

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b><u>Primary Government</u></b>					
Governmental activities:					
Compensated absences	<u>\$ 264,540</u>	<u>\$ 40,320</u>	<u>\$ 51,243</u>	<u>\$ 253,617</u>	<u>\$ 78,273</u>
Business-type activities:					
Revenue bonds	<u>\$ 3,205,000</u>	<u>\$ -</u>	<u>\$ 530,000</u>	<u>\$ 2,675,000</u>	<u>\$ 85,000</u>
<b><u>Component Unit</u></b>					
Revenue bonds	<u>\$ 450,000</u>	<u>\$ -</u>	<u>\$ 35,000</u>	<u>\$ 415,000</u>	<u>\$ 40,000</u>

For the governmental activities, compensated absences are liquidated by the general fund or the fire special revenue fund (for firefighters).



# **TOWNSHIP OF LEONI, MICHIGAN**

## **Notes To Financial Statements**

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### **G. Segment information--enterprise funds**

The government issued revenue bonds to finance certain improvements to its water distribution and treatment system. Because the Water Fund, an individual fund that accounts entirely for the government's water distribution and treatment activities, is a segment and is reported as a major fund in the fund financial statements, segment disclosures herein are not required.

## **IV. OTHER INFORMATION**

### **A. Risk management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2004, the Township carried commercial insurance to cover all risks of losses. The Township has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

### **B. Property taxes**

The government's property taxes are levied each December 1 on the assessed valuation of property located in the Township as of the preceding December 31, the lien date. Assessed values are established annually by the government and subject to acceptance by the County. Real and personal property in the Township for the 2003 levy was assessed at \$316,476,919 (not including \$6,485,742 of property subject to Industrial Facilities exemption). The government's general operating tax rate for fiscal year 2003-04 was 0.8058 mills with 1.2089 additional mills levied for fire operations.

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other related taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current assessed valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the Township. Property taxes are recognized in the fiscal year in which they are levied.

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

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### C. Employee retirement system and plan

#### Plan Description

The Township's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Township participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

#### Funding Policy

The Township is required to contribute at an actuarially determined rate; the current rate is 5.23% of annual covered payroll. Township employees are required to contribute 7.5% of their annual covered payroll. The contribution requirements of the Township are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Township, depending on the MERS contribution program adopted by the Township.

#### Annual Pension Cost

For the year ended June 30, 2004, the Township's annual pension cost of \$89,018 for MERS was equal to the Township's required and actual contributions. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Township's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the latest actuarial valuation, was 30 years.

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

### Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$ 67,341	100%	\$ -
6/30/03	78,629	100	-
6/30/04	89,018	100	-

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/00	\$2,381,309	\$2,708,450	\$327,141	88%	\$1,367,031	24%
12/31/01	2,685,813	2,972,933	287,120	90	1,443,190	20
12/31/02	2,916,960	3,348,967	432,007	87	1,532,524	28
12/31/03	3,304,656	3,877,819	573,163	85	1,606,000	36

#### D. State Construction Code Act Compliance

Public Act 245 of 1999 amended the State Construction Act to require Michigan municipal governments to establish fees that bear a reasonable relationship to the cost of operating their building departments. The Township's fee structure is not intended to fully recover its costs, and accordingly, the operations of the Township's building department are accounted for in the General Fund.

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

For the year ended June 30, 2004, the Township's revenue and expenditures related to its building department were as follows:

### Revenue

Building permits	\$ 48,783
Electrical permits	18,823
Plumbing permits	12,668
Mechanical permits	<u>13,780</u>
<b>Total revenue</b>	<b><u>\$ 94,054</u></b>

### Expenditures

Public safety - inspection	<b><u>\$ 146,805</u></b>
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### E. Restatements

As of and for the year ended June 30, 2004, the Township implemented the following Governmental Accounting Standards Board pronouncements:

#### Statements

- No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

#### Interpretation

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The Township is required to implement the new requirements no later than the fiscal year ending June 30, 2004.

# TOWNSHIP OF LEONI, MICHIGAN

## Notes To Financial Statements

The more significant of the changes required by the new standards include:

- Management's discussion and analysis;
- Basic financial statements that include:
  - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
  - Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
  - Schedules to reconcile the fund financial statements to the government-wide financial statements;
  - Notes to the basic financial statements;
- Required supplementary information, including certain budgetary schedules.

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to beginning fund balance and net asset accounts:

The beginning net assets of the enterprise funds were derived by aggregating the previously reported retained earnings and contributed capital of those funds.

*Government-wide financial statements.* Beginning net assets for governmental activities was determined as follows:

Fund balances of general, special revenue and permanent funds as of 6/30/03, as restated	\$ 1,128,462
Add: governmental capital assets as of 6/30/03	1,665,951
Deduct: accumulated depreciation as of 6/30/03 on above governmental capital assets	(629,182)
Deduct: governmental compensated absences payable as of 6/30/03	<u>(264,540)</u>
<b>Governmental net assets, restated, as of 7/1/03</b>	<b><u>\$ 1,900,691</u></b>

As indicated above, the beginning fund balance of the general fund was increased by a net amount of \$55,373 to eliminate the fund liability for compensated absences (an increase of \$80,357) and to correct for a prior year revenue recognition error (a decrease of \$24,984).

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COMPONENT UNIT  
FINANCIAL STATEMENTS

**TOWNSHIP OF LEONI**  
**Statement of Net Assets and**  
**Governmental Fund Balance Sheet**  
**Downtown Development Authority Component Unit**  
**June 30, 2004**

	<u>Special Revenue</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 689,536	\$ -	\$ 689,536
Investments	254,258	-	254,258
Due from primary government	97,194	-	97,194
<b>Total assets</b>	<u>\$ 1,040,988</u>	<u>-</u>	<u>1,040,988</u>
<b>Liabilities</b>			
Due to primary government	\$ 153,824	\$ -	\$ 153,824
Accrued interest payable	-	5,966	5,966
Excess captured property taxes payable	168,270	-	168,270
Long-term liabilities:			
Due within one year	-	40,000	40,000
Due in more than one year	-	375,000	375,000
<b>Total liabilities</b>	322,094	420,966	743,060
<b>Fund balance - unreserved, undesignated</b>	<u>718,894</u>	<u>(718,894)</u>	<u>-</u>
<b>Total liabilities and fund balance</b>	<u>\$ 1,040,988</u>		
<b>Net assets - unrestricted</b>		<u>\$ 297,928</u>	<u>\$ 297,928</u>

**TOWNSHIP OF LEONI**  
**Statement of Activities and**  
**Governmental Fund Revenues, Expenditures**  
**and Changes in Fund Balance**  
**Downtown Development Authority Component Unit**  
**For the Year Ended June 30, 2004**

	<u>Special Revenue</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Expenditures / expenses</b>			
Community development	\$ 36,705	\$ -	\$ 36,705
Refund of excess capture	168,270	-	168,270
Debt service:			
Principal	35,000	(35,000)	-
Interest and fiscal charges	37,303	(503)	36,800
	<u>277,278</u>	<u>(35,503)</u>	<u>241,775</u>
<b>General revenues</b>			
Property taxes	332,902	-	332,902
Investment earnings	16,075	-	16,075
	<u>348,977</u>	<u>-</u>	<u>348,977</u>
Net changes in fund balances	71,699	(71,699)	-
Change in net assets	-	107,202	107,202
Fund balances/net assets, beginning of year	<u>647,195</u>	<u>(456,469)</u>	<u>190,726</u>
<b>Fund balances/net assets, end of year</b>	<u><u>\$ 718,894</u></u>	<u><u>\$ (420,966)</u></u>	<u><u>\$ 297,928</u></u>





# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

July 29, 2004

To the Board of Trustees  
Township of Leoni

We have audited the financial statements of the *Township of Leoni* for the year ended March 31, 2004, and have issued our report thereon dated July 29, 2004. Professional standards require that we provide you with the following information related to your audit.

## **Our Responsibility Under Generally Accepted Auditing Standards**

As stated in our engagement letter dated April 28, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Township of Leoni. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

## **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township of Leoni are described in Note 1 to the financial statements.

As described in Note IV.E. to the financial statements, in 2004 the Township changed accounting policies related to the new financial reporting requirements for all state and local governments, by adopting Statements of Governmental Accounting Standards (GASB Statements) No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues – An Amendment to No. 33*, No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38 – *Certain Financial Statement Note Disclosures*. The cumulative effect of implementing these new standards resulted in a substantial restatement of beginning net assets/fund balances.

We noted no transactions entered into by the Township of Leoni during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that it is reasonable in relation to the financial statements taken as a whole.

**Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Township that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed several audit adjustments that, in our judgment, both individually and in the aggregate, had a significant effect on the Township, all of which were recorded by the Township, and are reflected in the financial statements.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This information and the attached memorandum are intended for the use of the Board of Trustees and management of Leoni Township and the State of Michigan. However, this report is a matter of public record, and its distribution is not limited.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Lohman". The signature is written in dark ink and is positioned below the closing "Very truly yours,".

**LEONI TOWNSHIP**  
**COMMENTS AND RECOMMENDATIONS**  
**For the Year Ended June 30, 2004**

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During our audit we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters, and does not affect our report dated July 29, 2004, on the financial statements of Leoni Township.

We will review the status of these comments during our next audit engagement. We have already discussed many of these matters with Township management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the Township in implementing the recommendations.

**Enterprise Fund Receivables**

The Township should establish procedures to ensure that enterprise fund receivables for usage and other services are reconciled no less than monthly to the respective subsidiary ledgers. To facilitate this, the Township should also maintain general ledger control accounts that correspond to these subsidiaries. Finally, the Township must remember to print (or electronically store) the June 30 subsidiary ledgers for use in subsequent reconciliation and for the audit.

**Interest on Special Assessments**

Each year, when the special assessment bills are produced, the amount of interest due on each bill and in total is determined. We have advocated, verbally, for a number of years that the total interest amount be recorded as revenue (with the offsetting entry to accounts receivable) when the bills are sent out, rather than recognizing the revenue on a piecemeal basis when bills are paid. In the past, considerable time was spent correcting the accounting records for the proper amount of interest on special assessments. While it required less audit time this year, we still believe it would be more efficient for the Township to recognize the interest in one entry rather than piecemeal throughout the year.

**Use of Capital Assets Module**

Heretofore, the Township has maintained its capital assets records on manual and then computer spreadsheets. To improve the organization/efficiency of this process, we recommend the use of the capital assets module in the accounting software package. This should include both proprietary and governmental capital assets.

**Permit Fees**

Amounts charged for permit fees for the year ended June 30, 2004, were approximately \$52,000 less than the direct costs of providing related inspection services. Accordingly, given the potential financial issues the Township will face in the next few years in its governmental funds, we urge the Township to complete a study of its inspection services costs and to modify its permit fee schedule based on these costs.

**DPW Inventory Control**

To enhance internal control over sewer fund inventory (which is primarily grinder cans and pumps), we recommend that the Township establish a perpetual inventory record along with a requisition form/procedure to track all items coming into and going out of inventory. The requisition procedure should also ensure that all parties are billed on a timely basis for items going out of inventory and constituting "sales."

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